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UNCLAS WARSAW 001369

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SUBJECT: LOT AIRLINES CEO DISCUSSES BOEING'S OFFER

REF: (A) WARSAW 985, (B) WARSAW 971

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Summary

1. (SBU) The CEO of LOT Airlines met with the Ambassador to discuss the LOT tender for wide-body aircraft. LOT still does not know when the final decision on which aircraft it will purchase will be made. The CEO expects, however, that if the decision is postponed past the middle of April the entire proposal will likely be tabled for two years due to the coming change in Poland's government. The CEO said that Boeing's recent efforts in Poland, especially the visit of the former Boeing CEO, Harry Stonecipher, have helped the company's bid.

Timing?

2. (SBU) The CEO and President of LOT Airlines, Marek Grabarek, met with the Ambassador on March 9, to discuss the LOT tender for wide-body aircraft. Grabarek acknowledged that the fleet replacement process was not progressing as quickly as he wanted and claimed that he did not know why it has taken so long. While stressing his desire for LOT to make the decision as much as possible on commercial grounds, he acknowledged that LOT will need to consult with the GOP

3. (SBU) Due to the expected elections in June, Grabarek believes that mid-April is the deadline by which a decision must be made. If, by that time, the GOP has not decided which aircraft to purchase, Grabarek thinks that the political climate will be such that the GOP will not make a decision before elections. In that case, LOT will most likely revisit the fleet-replacement issue in about two years. With winter vacation now over, he believes it might be easier for "the ministers to make a decision." Grabarek said that it would be useful for the USG to push the government to make a decision - or support LOT's choice - soon.

Political Pressures

4. (SBU) Grabarek was heartened by the message that came out of the Ministry of Treasury during the Stonecipher visit that the decision will be made on the commercial merits. He acknowledged that there is tremendous political pressure being applied at all levels of the GOP, but believes the current state of the government is weakening traditional political muscle. He said the Stonecipher visit was an effective counterweight to some of the political pressure from Airbus because it stressed the company's commercial advantages and effectively highlighted Boeing's cooperation in Poland. Grabarek appreciated the Boeing CEO's comments that Boeing would hold the 787 delivery slots for LOT for the time being. Grabarek hoped that Boeing's new management would reconfirm that same flexibility as soon as possible.

Future of LOT

5. (SBU) Next week LOT will send letters to Airbus and Boeing asking them to extend their offers, as both expire soon. In addition, the letter to Boeing may request that the aircraft manufacturer include flexible options for the larger 787-9 aircraft. Grabarek said that since LOT began addressing the fleet replacement issue in summer 2004, the company's market outlook has become more upbeat and it may

need to purchase bigger aircraft.

16. (SBU) Grabarek reported that the Ministry of Treasury's talks with the trustees of the Swiss Air Group regarding disposition of their shares were going well and there should "soon" be an agreement to move ahead with the privatization

of LOT. Grabarek said that while LOT needs to move ahead and have a final decision on the wide-body aircraft purchase for the sake of the company, it is still deciding what kind of airline it wants to be. The airline is positioning itself as a provider of premium services among a field of low-cost carriers. Grabarek said that his "dream" is for Boeing to win the deal. He added that, ideally, Boeing would also assist in the refurbishment of the business class seats in LOT's current 767 fleet, which LOT would continue to operate before the delivery of the 787s.

Message to Boeing

17. (SBU) Grabarek said CEO Stonecipher's trip had been very effective in promoting the company's bid and stressing the importance of keeping the fleet replacement tender commercial. He did not think Boeing needed to follow-up with another visit in the wake of Stonecipher's dismissal, but a high-level visit by Boeing at the same time that the supervisory board is deciding which aircraft to purchase might be counterproductive. The Ambassador asked Grabarek if there was any message that he should share with Boeing. Grabarek responded, "They need to have a little more patience."

Comment

18. (SBU) Officials at all levels tell us Airbus is applying enormous political pressure to swing the deal their way. The good news is that LOT and its parent ministry (Treasury) seem intent on keeping the deal as commercial as possible. We have previously heard from the Minister of Treasury, Jacek Socha, that the decision rests solely in the hands of the supervisory board (reftel A). We should not underestimate the challenges LOT and Socha will face in keeping it commercial, although, perversely, the GOP's impending dissolution as elections approach will tend to blunt some of the instruments in Airbus' toolkit. We will keep up our engagement on this end, pushing for a decision this spring and recommend that Boeing stay sharp. It would be useful for the new Boeing CEO to send LOT a letter reiterating Stonecipher's commitment on the flexible delivery slots. End comment.

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